CompuServe's comments, in addition to the general claim addressed earlier that it can be assumed that unidentified complaints about unidentified conduct constitute actual proof of something, make several claims about U S WEST's "discriminatory" and otherwise untoward conduct.³⁴ While not as patently silly as the assumptions based on the titles of lost informal complaints, these "facts" are so far removed from the realm of the probative as to further undermine CompuServe's credentials as a bona-fide party in this proceeding.

CompuServe initially raises the issue of possible cross-subsidization, citing the Order to Show Cause issued by the Commission this year concerning an audit of U S WEST's accounting practices during the 15-month period ending on March 31, 1989. Sometimes of the CompuServe is particularly indignant about an apparent violation of the Commission's cost allocation requirements. Since the CompuServe filing, U S WEST has had an opportunity to respond to the Show Cause Order. In this response, U S WEST explained each of the "apparent violations," and the steps it had taken to comply with the finding of an independent audit that the accounting practices in question were less than optimal. It was pointed out, as had indeed been conceded by the Commission, that no accounting system can prevent all mistakes,

³⁴ See CompuServe Comments at 28-31.

³⁵ In the Matter of US West Communications Inc., AAD 93-152, Order to Show Cause, FCC 95-78, rel. Mar. 3, 1995.

³⁶ CompuServe Comments at 28.

³⁷ See U S WEST Communications, Inc. Response to Order to Show Cause, AAD 93-152, <u>In the Matter of US West Communications</u>, Inc., filed May 2, 1995.

and that misunderstandings of the meaning of certain Commission preferred accounting practices were inevitable in any area as complex as the Uniform System of Accounts. Perhaps most significantly, all of the challenged practices took place long ago during a time of intense turmoil -- including the initial implementation of the new regulated/deregulated accounting rules. The total impact of the alleged errors was to understate U S WEST's interstate revenue requirements by more than \$2 million. As to the regulated/deregulated cost accounting error (Apparent Violation No. 15), the problem was the result of a software error which was corrected immediately upon discovery. No other "apparent violations" dealt with deregulated accounting issues. Whatever else the merits or demerits of the audit referenced by CompuServe, it does not indicate anything about the willingness, ability or propensity of U S WEST to cross-subsidize its deregulated operations.

Moreover, on the general theory that there is a limit to how many times a matter can be redundantly litigated, this proceeding is not a rational (or fair) one in which to again attack the FCC's accounting rules. These rules are working, and the Ninth Circuit has affirmed this fact. This issue ought to be dropped unless someone can come forward with some current and meaningful deviations from the deregulated cost accounting rules before the Commission ought to relitigate that issue -- and only for the affected carrier, not all carriers.

³⁸ U S WEST Communications, Inc. Response at 35-36.

On discrimination, CompuServe's allegations are generally found in a 1993 affidavit of Vickie E. Rutkowski. Ms. Rutkowski's allegations against U S WEST are as follows:

- In June of 1993, AT&T had a "problem" with service it purchased from U S WEST and used to serve CompuServe. The problem was escalated within U S WEST, but was not solved for 25:14 hours.³⁹
- 2) In December of 1993, U S WEST could only provide CompuServe with half of its ordered service until an additional cable pair was installed.⁴⁰
- 3) In October of 1993, U S WEST ran out of facilities to a CompuServe site, delaying installation until the end of the month (a three week delay). 41

These three allegations, of course, prove absolutely nothing.

As its final piece of "evidence" that U S WEST engages in discriminatory conduct, CompuServe references a January, 1992 letter from the president of Integrity Home Inspections to the Public Utility Commission of Oregon claiming that, when he called U S WEST to attempt to order a call forwarding feature to utilize in conjunction with the voice messaging feature of a competitor, the U S WEST business office person attempted to sell him U S WEST voice messaging service. From this incident, CompuServe concludes that "partially as a result of

³⁹ See Rutkowski Affidavit at 6 (appended to CompuServe Comments as Exhibit B).

⁴⁰ See <u>id.</u> at 7.

See <u>id.</u> at 8.

⁴² See CompuServe Comments at 48, citing a January 2, 1992 letter filed with an ex parte statement filed on December 13, 1994.

these kinds of discriminatory activities, the BOCs now control most of the market for voice mail-services." Based on the very limited information supplied by CompuServe, it is not possible for U S WEST to respond to this three-year-old letter in any detail. We do note that U S WEST's internal operating procedures would not permit the action described in their letter -- which asserted that a U S WEST employee tried to sell U S WEST voice messaging service after becoming aware that the customer was ordering basic service to connect with a competitor's enhanced service. One U S WEST compliance tool, the Small Business Guidelines for Legal Compliance states this policy as follows:

UNHOOKING

Unhooking is the unjustified, intentional interference with a competitor's contract with a customer, never persuade or encourage a customer to violate or break a contract with a competitor, or offer advice about a customer's obligations to a competitor.

Example:

If a customer requests a basic service element and you determine it is for the purpose of utilizing a competitor's service, such as voice messaging or answering service, you are not to try and sell them our BVMS instead. If, however, the customer is comparative shopping, do feel free to compete fairly for a customer's business by discussing our services and pricing, but be very careful of actions that could look like "unhooking."

We note that January 2, 1992 was at the very beginning of U S WEST's offering of voice mail service in Oregon, and there is certainly the possibility that U S WEST's procedures had not become fully understood on that date (although we by no means

Id. at 48-49.

concede that the actions described in the letter actually occurred). However, the lack of specifics and great age of the letter preclude U S WEST from even investigating the purported incident. In addition, even if true, it is beyond even the fertile imagination of CompuServe to contend that a single unsuccessful sales pitch to a single customer more than three years ago could be even remotely responsible for U S WEST's nearly one million voice mail customers -- if U S WEST were engaging in a practice of attempting to sell voice mail to customers who are seeking assistance in connecting to the services of other voice mail providers, surely CompuServe would have come up with evidence more compelling than a single unsworn letter more than two years old. Finally, as noted in U S WEST's initial comments, U S WEST does not control "most of the market for voice-mail services." The competitive voice mail market is robust and flourishing, with most of U S WEST's market gains being made in customer groups not served by other providers."

MCI's allegations against U S WEST are, if anything, even less substantial. MCI attaches a letter dated March 30, 1992 from an individual describing himself as a "representative" of the Missouri Telemessaging Association, addressed to an unidentified United States Senator. This individual claims to have seen records of an entity called "Alert Telephone Answering Service" in Denver which allegedly reveal that U S WEST business office personnel market U S WEST enhanced services. It is difficult to understand just what this person is describing (hardly

See US WEST Comments at 11-13.

surprising, given the fact that he is claiming to describe documents he has seen which represent observations of unnamed people in Denver going back three years prior to his 1992 letter). However, U S WEST has very specific procedures in place which govern when and how business office personnel may market voice messaging services. These procedures include the "unhooking" prohibition described above, plus specific methods of dealing with call forwarded services, customers with restricted CPNI and customers with an unlisted or non-published number. These procedures implement the FCC's rules and U S WEST personnel comply with them.

In a similar (although more general) vein, MCI fulminates as follows:

Using a variety of strategies, they [the RBOCs as a group] have leveraged their remaining monopoly power to extort whatever advantage they can secure in emerging adjacent competitive markets, including the enhanced services market. The blithe suggestion in the Notice that BOC nondiscrimination reports have shown that discrimination has not occurred therefore cannot be taken seriously.⁴⁵

While the MCI rhetoric quoted above is drivel, it occurred to U S WEST that the Commission may not be aware of the effort which goes into completion and filing of these nondiscrimination reports.

U S WEST's Parity Compliance Reports are issued monthly and quarterly, and compare Affiliate customer results with All Other customer results. There are a total of 121 specific categories governing products for CPE, ONA and EIC (expanded interconnection) service offerings. Raw data for the reports is extracted from the

⁴⁵ MCI Comments at 38 (citation omitted).

SOPAD, CORD and SOLAR service order data bases. The data extracts are processed in the CPR database by a FOCUS processor which compiles the data based on provisioning input. This information, on a state-by-state level, is used for internal analysis and preparation of the required CPE and enhanced service reports to the Commission. Maintenance reports require initial extracts of completed maintenance reports from the WFA and TIRKS system. The Maintenance analysis extracts require details of completed maintenance reports obtained from WFA, TIRKS, and LMOS. A (variable) threshold is set based on the differential found between Affiliate results and All Others results. The threshold can be set to include all reports exceeding X hours of report duration (from time of initial report to final completion status in the maintenance system). This information is applied to the research of reasons for standards not met including: parity concerns, excessive intervals per state/region/company, and other inconsistent (maintenance) legal results. Standards for maintenance compliance include: an allowable differential of 42 minutes for CPE results; a 1 hour differential for ONA designed services results; and a 2 hour differential for non-designed services results. Root cause data research requires data obtained from : WFA; LMOS; WFA-DO; TIRKS; compilation systems (FOCUS, OQS, MTAS); and networking systems (RDS, RMDS). In some cases, local trouble history record pattern information, that is pertinent to a given area's results, is obtained via either the ACE or CRAS systems. Data obtained from EASY is used for local pattern identification for LMOS processed services.

In other words, preparation and analysis of the U S WEST nondiscrimination reports are complex processes designed to keep both U S WEST and the Commission appraised of the success of U S WEST in achieving its commitment to provide nondiscriminatory provision of basic services. MCI's blithe dismissal of this rigorous process is wrong.

In short, CompuServe's and MCI's allegations of discrimination and misconduct are so flimsy that they demonstrate exactly the contrary of what CompuServe and MCI contend. If U S WEST were really behaving in a manner to thwart competition in the enhanced services markets in which it participates, CompuServe and MCI would certainly have been able to come up at least with some compelling evidence to this effect. The absence of any pertinent evidence whatsoever is, we submit, powerful evidence that CompuServe and MCI have been unable to uncover any meaningful misconduct on the part of U S WEST. Given the intense attention that U S WEST has given to ONA compliance, this fact is hardly surprising, but it is compelling nevertheless.

IV. MCI'S ATTACKS ON THE STANDARDS SETTING PROCESSES ARE MISPLACED

MCI, as part of an apparent effort to demonstrate that the non-structural safeguards which form the basis of U S WEST's ONA compliance procedures cannot work, contends that the Information Industry Liaison Committee ("IILC") "is essentially a black hole from which nothing ever emerges, or, if something does emerge, only years late and in a form that does not satisfy the competitive needs

that necessitated the request to the IILC in the first place." MCI concludes that "any Commission policy decision that relies in part on the availability of the IILC to resolve requests by competitive service providers for BOC network features is inherently arbitrary. Thus, any decision based partly on the ONA process, which relies on the IILC, will be arbitrary." In support of this rather striking accusation against an organization comprised of representatives of the entire telecommunications industry, including MCI itself (which exercises a powerful leadership role in industry standards organizations), MCI relies entirely on an affidavit of a gentleman named Peter P. Guggina, who represents MCI as a member of the board of directors of the Alliance for Telecommunications Industry Solutions ("ATIS").

Mr. Guggina's affidavit, however, rather than showing any actual disfunctionality with the IILC or other entities involved in the standards setting process, demonstrates a strange personal paranoia which finds an RBOC conspiracy behind every disagreement with MCI or Mr. Guggina himself on practically any issue. For example, in the section of his affidavit claiming that "The RBOCs and Bellcore Can Control Enhanced Services Development Through Dominance of the Industry Standards and Forum Process," Mr. Guggina attributes all IILC delays in resolving difficult issues to RBOC intransigence, and waxes furiously over the

⁴⁶ <u>Id.</u> at 31.

⁴⁷ <u>Id.</u> at 31-32.

Guggina Affidavit at 4-9 (appended to MCI Comments as Exhibit B).

injustice caused by the fact that a consultative process providing due process might actually require compromises from the participating parties:

Issues originated by ESPs and presented to the forum are frequently altered by RBOC participants. Hence, the scope and intent of the issues are changed in order to gain RBOC support in working the issue.⁴⁹

This, of course, is precisely the nature of compromise. U S WEST must likewise be flexible in these types of bodies in order to achieve the same type of consensus to pursue its own interests. Mr. Guggina's suggestion that the industry consensus process be replaced by government edict -- a common theme throughout his affidavit⁵⁰ -- is seriously defective.

One is tempted to provide a point-by-point rebuttal to Mr. Guggina's affidavit, for it is in reality an attack on one of the most fundamental propositions in the American economy -- that companies and individuals doing business together will arrive at a superior result than would have been the case if the government dictated the relevant business outcomes. However, stripped of innuendo and adjective, Mr. Guggina's entire affidavit actually does nothing more than document that the standards process is a difficult one, and that all parties involved (including MCI) are taking the process seriously. Assertions that LECs and interexchange carriers sometimes have difficulties in resolving issues (pp. 10-13), that some

Id. at 6 (footnote omitted).

⁵⁰ <u>Id.</u> at 8-9.

RBOCs did not comply with MCI's wishes in their tariffs concerning telecommunications fraud prevention (p. 16), that MCI's Global Virtual Network Service fared poorly in international forums (pp. 17-18), and that RBOCs' greater attendance at meetings of Committee T-1 working groups permits them to dominate such meetings because of the requirement that decisions reached at the working groups must be reached by consensus of attendees (pp. 19-20 -- it is true that this argument is internally contradictory, but that is what Mr. Guggina alleged) are simply far fetched and irrelevant. ATIS is submitting a filing describing its internal procedures in some detail (as MCI is on the Board of Directors of ATIS, the filing is quite neutral and non-argumentative) as is Bellcore. These filings effectively dispose of MCI's position that standards bodies, industry consensus and the reasonable application of people of good will to resolution of difficult standards issues should be replaced by government force.

V. THE LATEST OFFERING BY HATFIELD ASSOCIATES DOES NOT SUPPORT THOSE WHO WOULD REIMPOSE STRUCTURAL SEPARATION

A group of parties seeking reimposition of structural separation have introduced a document prepared by Hatfield Associates (Hatfield Report or Hatfield).⁵¹ This document, following on the heels of earlier Hatfield Reports to

⁵¹ <u>See</u> "ONA: A Promise Not Realized -- Reprise," Hatfield Associates, Inc., dated Apr. 6, 1995 (appended to a letter from Jeffrey A. Campbell, on behalf of CompuServe, MCI and Information Technology Association of America, to W. Caton, FCC, filed Apr. 7, 1995).

much the same effect,⁵² contends that "fundamental unbundling" has not yet been achieved in the ONA world, that such unbundling is feasible and desirable, and that non-structural safeguards will not prevent cross subsidization.

To a large extent the Hatfield Report simply misses the issue in this proceeding. The key matter which this docket addresses is whether structural separation should be reimposed on the RBOCs for the offering of enhanced services. While "unbundling" is clearly an important issue, while there are serious questions over the level of unbundling which is economical, practical or reasonable, and while there may be a disagreement over whether such unbundling is better treated through customer requests under the ONA process (as is the case today) or through governmental mandate (as MCI demands), no one contends that the local exchange networks have been "fundamentally unbundled" at this time. Instead, US WEST's position is that it would be arbitrary, unfair and contrary to the public interest to reimpose structural separation for provision of its enhanced services. Thus, Hatfield's main points -- that local exchange carriers still possess considerable market power (or, more accurately, market share, as there is a very real issue as to whether the LECs could sustain an actual exercise of market power) and have not "fundamentally unbundled" their networks -- are really irrelevant.

Several issues raised by Hatfield deserve brief comment.

First, quoting back to the original <u>Computer III Order</u> which describes the fact that ONA contemplates that LECs "must unbundle key components of its basic

⁵² <u>See, e.g.,</u> Hatfield at 7 n.8, 11 n.15, 17 n.24.

services and offer them to the public under tariff . . .," Hatfield concludes that ONA really means:

In other words, the basic components of the network -- the loop, switching, signaling, intelligent network services, interoffice transport -- and even appropriately-defined subcomponents of these components, such as the distribution and feeder portion of the loop -- would be available on a separate, or "unbundled," basis. A user could buy just those components it needed to construct the services it wished to offer. Thus, for instance, an ESP could purchase just the local loop from the RBOC, and connect it to its own facilities. The basic unbundled components of the network were referred to by the Commission as Basic Service Elements (BSEs).⁵³

Of course, Hatfield's description of a "fundamentally unbundled" network, good or bad, is a far cry from the market-based unbundling contemplated in any of the Computer III Orders. Hatfield's vision of the future is not shared by everyone, and certainly cannot take place without serious regulatory, technological, market, economic and public interest analysis. Hatfield's criticism that the Commission somehow abrogated the original ONA vision by "order[ing] the RBOCs to explore with the industry how further unbundling might take place [through the IILC] is simply not based on a proper recollection of the facts.⁵⁴

Hatfield also characterizes the RBOCs' record of responding to requests for ONA services as "dismal", 55 notwithstanding the fact that no complaints have been filed with the Commission concerning wrongful denial of a request for a new ONA

 $^{^{53}}$ <u>Id.</u> at 10 (emphasis in omitted).

⁵⁴ <u>Id.</u> at 11.

⁵⁵ <u>Id.</u> at 12.

service. In point of fact, based on Appendix B to the ONA Users' Guide (and U S WEST's own April 15, 1995 ONA filing), ⁵⁶ U S WEST has met 81 of the 118 requests for ONA services submitted to it by enhanced service providers. Thirty-one requests have not been met by any RBOC because the technical capability for the requested service does not exist. ⁵⁷ These are not "dismal" statistics. If U S WEST were really refusing to make a bona fide attempt to provide service to ESPs, we assume that MCI and Hatfield would have come up with something more compelling than a meaningless and misleading statistical analysis.

Hatfield makes another mistake in an area where it should know better.

Proclaiming that "RBOC Pricing Makes ONA Services Uneconomic," Hatfield proclaims that:

Compared to local business lines, BSAs are very expensive, making it impractical for ESPs to purchase BSEs.... In return for paying almost \$200 more per line for a BSA, the ESP may purchase BSEs not available with a business line. The cost differential is so great, however, that the vast majority of ESPs continue to purchase business lines and have foregone the use of BSEs that might give them the capability to provide new and innovative services for their subscribers.⁵⁹

³⁶ See April 15, 1995, Annual ONA Report of U S WEST Communications, Inc., CC Docket No. 88-2, Phase I, In the Matter of Filing and Review of Open Network Architecture Plans, filed Apr. 17, 1995.

⁵⁷ See U S WEST Communications, Inc.'s April 15, 1995 Annual ONA Report. While Hatfield contends that requests which have been classified as "requir[ing] development" (U S WEST uses the term "technically infeasible") as having been "dismissed... from further consideration by a wave of the hand..." (Hatfield, p.12), this report lists each such request for network capability and its disposition. Annual ONA Report at 7-9 and appendices C and D. If Hatfield were really interested in actual ONA implementation, rather than rhetoric, the Hatfield Report presumably would have addressed some of these services.

⁵⁸ Hatfield at 12.

⁹ Id. at 12-13.

However, as Hatfield is presumably aware, a business line is an ONA service, and is every bit as much a "basic serving arrangement" as is an interstate feature group line. We are aware of no basic service elements available on an interstate feature group line which are not available in some configuration or other on a intra-state service. Interstate basic service elements are not purchased in abundance because the enhanced service provider exemption from payment of interstate switched access rates enables enhanced service providers to obtain interstate access at a price which is considerably lower than switched access rates by configuring themselves as end users and avoiding these charges. Hatfield's allegation that ONA does not work because of the high cost of feature group service is mystifying.

Hatfield also seems to miscomprehend the actuality of the market when it contends that "[o]nly a limited number of [CLASS] features have been made fully available to competitors under ONA plans." US WEST already offers under tariff the following CLASS services -- available to all ESPs: Continuous redial, Last call return, Caller identification name and number, Call trace, Priority call, Selective call forwarding and Call rejection. As new CLASS services are developed, they will be deployed in accordance with market requests. However, unless an ESP requests that a service be designated as an ONA service (or an internal US WEST enhanced service operation wishes to utilize the function), a new local exchange service is not classified as an ONA service. But the service is still offered, and is still available to

^{60 &}lt;u>Id.</u> at 19.

ESPs on a nondiscriminatory basis. Hatfield's analysis is simply based on a lack of ESP interest in existing U S WEST tariffed services, and nothing more.

Another strange Hatfield logic train is illustrated by its citation of a statement in an article by Ann E. Merrell, in which Ms. Merrell discussing deployment of CCS networks, and is quoted as stating:

Extensions of other services to function on an interLATA basis are technically feasible. However, in addition to the need to determine the market potential of such extensions, there are possible business, regulatory and legal issues that may need to be addressed first.⁶¹

This seems like a perfectly innocuous and responsible statement. After all, introduction of a new service by any company without first analyzing the potential business, legal and regulatory issues would most assuredly be foolhardy. But Hatfield seems to share Mr. Guggina's paranoia, when it draws the following conclusion from this innocent passage:

This shows that, first, the RBOCs may choose not to make technically feasible forms of interconnection available for strategic business reasons and, second, that they can raise a host of market, regulatory and legal issues in order to delay technically feasible interconnections for potential competitors. 62

There is simply no way a fair reading of the passage quoted by Hatfield can lead to Hatfield's negative conclusion.⁶³

Id. at 28 (citation and emphasis omitted).

^{62 &}lt;u>Id.</u>

⁶³ For more unfounded Hatfield speculation, see id. at 34-36.

The remainder of the Hatfield Report is generally a rambling collection of opinions about Hatfield's own vision of how it could design a network (and how RBOCs seem of a single mind to thwart that vision, pp. 26-36) and how price cap regulation still has many indicia of rate of return regulation (pp. 38-41) (failing to note, however, that MCI fought vigorously to defeat incentive regulation and to retain RBOC rate base regulation for an indefinite period).

Hatfield concludes that "[t]he costs of eliminating structural separation would likely far exceed the benefits." Hatfield's "costs", however, include such items as "Risk of anticompetitive behavior" and "Cost of the antitrust suits that would follow." Hatfield's other "costs" are no less general and global. The conclusions are a fitting end to an analytical report which simply fails to address any of the key issues upon which decisions in this docket must be premised.

VI. <u>CONCLUSION</u>

The commentors in this docket seeking to reimpose structural separation have failed to raise any intelligible reason to support their position. U S WEST accordingly requests that the Commission's decision in this docket reaffirm that

³⁴ <u>Id.</u> at 51.

^{65 &}lt;u>Id.</u>

U S WEST's ability to provide integrated enhanced services best serves the interests of consumers and is in the public interest.

Respectfully submitted,

U S WEST, INC.

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Its Attorney

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May 19, 1995

CERTIFICATE OF SERVICE

sion

I, Kelseau Powe, Jr., do hereby certify that on this 19th day of May, 1995, I ave caused a copy of the foregoing REPLY COMMENTS OF U S WEST, INC., to served via first-class United States Mail, postage prepaid, upon the persons sted on the attached service list.

sion

Kelseau Powe, Jr

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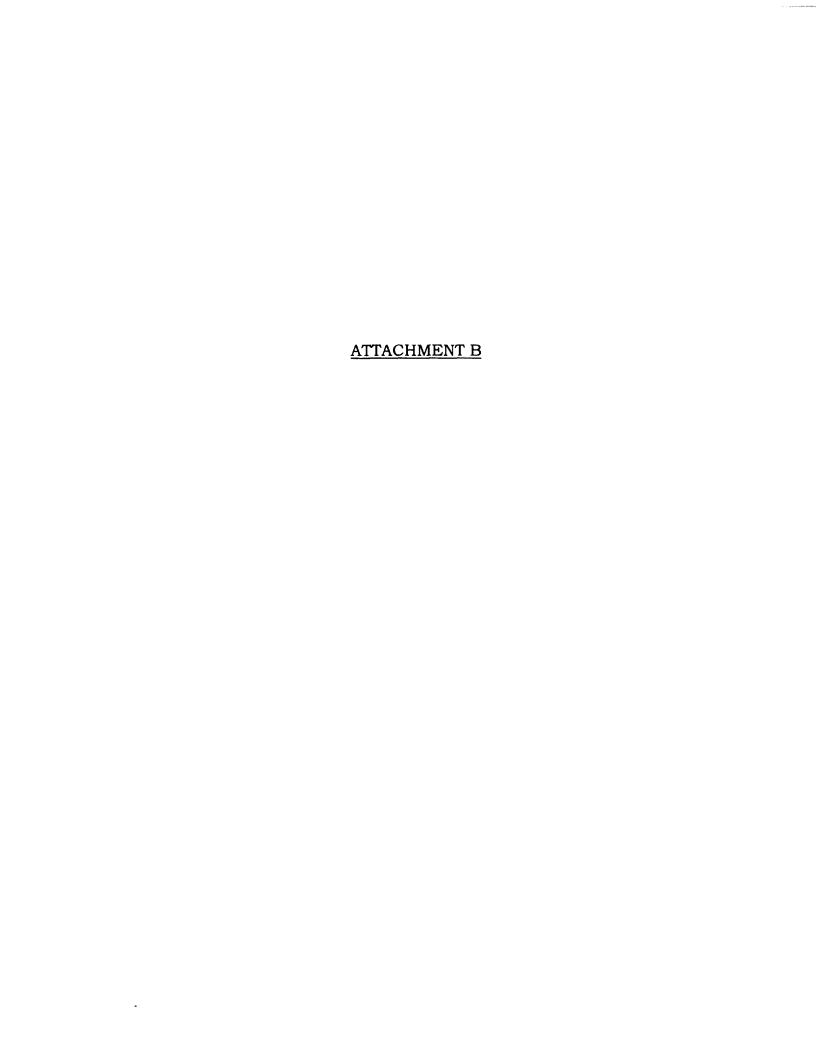
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Structural Separation of Enhanced Service Offerings

Prepared By: U S WEST Management Information Services 181 Inverness Drive West Englewood, Colorado 80112

Preface

U.S. WEST Management Information Services (MIS) is a specialized internal organization operating as a business unit. Its mission is to provide information technologies services to assist U.S. WEST subsidiaries in satisfying their business requirements through value-added technology solutions. MIS promotes the use of established corporate and industry technology standards as well as specialized technology needs of our customer base.

This paper was co-authored by Mr. Ronald M. Trasky and Mr. Joseph J. Dolac of U S WEST Management Information Services. Both are Advanced Members of the Technical Staff and are Project Mangers responsible for a variety of Wide Area and Local Area Network projects and related activities.

Mr Trasky has 27 years experience in the fields of telephony and information services.

This experience has ranged from the installation of telephone cabling systems through the design and implementation of a 1600 node Wide Area Network for U.S. WEST Business Resources, Inc. His most recent endeavors have centered around the Client/Server arena. He is currently enrolled in the doctoral program at the Graduate School of Social Work, University of Denver.

Mr. Dolac has 27 years of experience in the information services field. This experience has progressed from application programming, through Main Frame Systems Engineering, to Wide Area and Local Area Network design. He was responsible for the network design and implementation of two U.S. WEST robotics warehouses. His current activities have focused on the emerging technologies within the desktop and Local Area Network environments.

Both Mr. Dolac and Mr. Trasky have experience in similar types of business planning. Mr. Trasky, during the design of the previsously mentioned WAN, was required to obtain costs and configurations before implementation was begun. Similarly, Mr. Dolac had the same requirements when designing the LAN and WAN components for the robotic warehouses.

Special information was obtained from the Subject Matter Experts listed in Appendix IV.